

Message Text

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ACTION EB-08

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TO SECSTATE WASHDC 7539

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AMEMBASSY KUWAIT

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E.O. 11652: N/A

TAGS: EFIN, EAID, SU, ECERR

SUBJECT: SUDAN: BUDGET PROPOSAL FOR FY 78-79

REF: CERP 0200

SUMMARY: MINFIN DELIVERED BUDGET SPEECH MAY 31 TO PEOPLE'S ASSEMBLY. FY 78-79 BUDGET, IN OUR OPINION, REFLECTS PROPER SETTING OF PRIORITIES AND HEALTHY REALIZATION THAT GOVERNMENT EXPENDITURES AND MONETARY GROWTH MUST BE RESTRAINED. FOR THE FIRST TIME, SEPARATE BUDGET FOR DEVELOPMENT PROJECTS IS INCLUDED ON DISBURSEMENT RATHER THAN COMMITMENT BASIS, BUT DISBURSEMENT FIGURES NOT CITED IN BUDGET SPEECHES. SIZABLE INCREASES IN GENERAL (NON-DEVELOPMENTAL) BUDGET HAS NECESSITATED CONSIDERABLE REDUCTION IN PROPOSED FUNDING FOR DEVELOPMENT PROJECTS. MINISTRY OF NATIONAL PLANNING OPPOSES DEVELOPMENT CUTS. IT HAS PROPOSED ITS OWN BUDGET FOR DEVELOPMENT PROGRAMS ON COMMITMENT BASIS AND IS ABOUT DOUBLE DEVELOPMENT EXPENDITURES ON DISBURSEMENTS BASIS AS PROJECTED BY FINANCE MINISTER. END SUMMARY.

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1. FINANCE MINISTER DELIVERED ANNUAL BUDGET ADDRESS TO PEOPLE'S ASSEMBLY ON MAY 31. BUDGET FIGURES FOR FY-78-79 WERE PREFACED BY REALISTIC APPRAISAL OF CURRENT FINANCIAL DIFFICULTIES. PRIORITIES AND ACTIONS TO ALLEVIATE CURRENT FINANCIAL CRISIS WERE THOUGHTFUL AND APPROPRIATE. THEY INCLUDED (1) CONCENTRATION ON IMPROVING EXISTING AGRICULTURAL AND INDUSTRIAL PROJECTS BY ALLOCATING RAW MATERIALS AND SPARE

PARTS TO INDUSTRIES WITH IDLE CAPACITY AND TO EXISTING AGRICULTURAL PROJECTS IN NEED OF ADDITIONAL RESOURCES; (2) ALLOCATION OF FOREIGN EXCHANGE RESOURCES TO ELIMINATE TRANSPORTATION BOTTLENECKS (FOR EXAMPLE, SPARE PARTS FOR SUDAN RAILWAYS); (3) THE SEARCH FOR A "DRASTIC SOLUTION" TO THE PROBLEM OF PUBLIC ENTERPRISES AND THE DRAG THEY NOW REPRESENT ON THE ECONOMY; (4) COMPLETION OF PROJECTS NOW UNDERWAY WHICH WILL INCREASE EXPORTS OR REDUCE IMPORTS IN THE SHORT TERM; (5) REDUCTION OF GOVERNMENT BORROWING AND MONETARY EXPANSION IN AN EFFORT TO CONTAIN INFLATION; (6) THE ESTABLISHMENT OF A SEPARATE BUDGET FOR DEVELOPMENT AND RECOGNITION THAT THE DEVELOPMENT PROGRAM "HAS TO CONFORM TO THE POLICIES OF ECONOMIC AND FINANCIAL STABILIZATION;" (7) THE INTENTION TO DISALLOW SUPPLEMENTAL BUDGETARY APPROPRIATIONS DURING THE FISCAL YEAR, THEREBY MAKING THE BUDGET PROPOSAL MORE MEANINGFUL.

2. THE BUDGET FOR FY 78-79 IS PROPOSED AT APPROXIMATELY 712 MILLION SUDANESE POUNDS. GENERAL (NON-DEVELOPMENTAL) EXPENDITURES ARE ESTIMATED AT 597.5 MILLION SUDANESE POUNDS, AN INCREASE OF 18.4 PERCENT OVER THE PREVIOUS FISCAL YEAR. THE DEVELOPMENT BUDGET IS REDUCED TO 115 MILLION SUDANESE POUNDS FOR A TOTAL BUDGET ROUGHLY EQUAL TO THE PREVIOUS YEAR. REVENUES ARE EXPECTED TO INCREASE 12.9 PERCENT OVER FY 77-78 TO 624.2 MILLION SUDANESE POUNDS. IMPLICIT IN THE BUDGET IS A DOMESTIC BORROWING REQUIREMENT FOR 88 MILLION SUDANESE POUNDS. LIMITED OFFICIAL USE

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3. GENERAL EXPENDITURES. SIZABLE INCREASES IN GENERAL EXPENDITURES ARE RESULT OF NUMBER OF FACTORS: EXPANSION IN GENERAL SERVICES; EFFECTS OF INFLATION ON GOVERNMENT PURCHASES; TRANSFER OF SOME NEW PROJECTS FROM DEVELOPMENT BUDGET TO GENERAL FUND; INCREASE IN PAYMENTS DUE ON FOREIGN OBLIGATIONS; AND EXPECTED GENERAL INCREASE IN PUBLIC SECTOR SALARIES. IN SECTORAL TERMS, EXPENDITURES FOR GENERAL ADMINISTRATION WILL INCREASE 43 PERCENT (LARGELY WAGE INCREASES AND COSTS OF GOVERNMENT PURCHASES), PAYMENTS TO LOCAL GOVERNMENT WILL INCREASE 20 PERCENT AND DEFENSE EXPENDITURES ARE PROPOSED FOR A 3 PERCENT EXPANSION. PAYMENTS TO THE SOUTHERN REGION WILL INCREASE ONLY 13 PERCENT.

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4. DEVELOPMENT BUDGET. MINFIN'S PROPOSED DEVELOPMENT BUDGET IS 203 MILLION SUDANESE POUNDS, INCLUDING A LOCAL CURRENCY COMPONENT OF LS 115 MILLION. PROPOSED BUDGET CONTINUES TO REFLECT EMPHASIS ON AGRICULTURAL DEVELOPMENT AND TRANSPORT AND COMMUNICATIONS INFRASTRUCTURE. MINISTER OF NATIONAL PLANNING'S COUNTER-PROPOSAL CALLS FOR EXPENDITURES OF LS 376 MILLION (202 FROM THE CENTRAL BUDGET), WHICH WOULD BRING THE GOVERNMENT PROGRAM FOR FY 78-79 MORE INTO LINE WITH THE PREVIOUS YEAR'S COMMITMENT. MINISTRY OF NATIONAL PLANNING SOURCE SEES NO RECONCILIATION BETWEEN THE MINISTRIES' PROPOSALS AND HOPES THAT THE PEOPLE'S ASSEMBLY WILL FAVOR THE LARGER DEVELOPMENT FIGURE.

5. FOREIGN EXCHANGE BUDGET. MINFIN'S PROPOSALS CALL FOR IMPROVED ALLOCATION OF FOREIGN EXCHANGE BY GIVING PRIORITY TO FOREIGN EXCHANGE DISBURSEMENTS THAT ELIMINATE TRANSPORTATION AND ENERGY BOTTLENECKS, ELIMINATE IDLE CAPACITY IN EXISTING INDUSTRY, AND INSURE THE AVAILABILITY OF STRATEGIC COMMODITIES. PROVISIONS FOR IMPLEMENTING THIS POLICY ARE LARGELY HORTATORY; THE GOVERNMENT'S RECORD IN THIS REGARD HAS BEEN SPOTTY. FOREIGN EXCHANGE RECEIPTS AND EXPENDITURES ARE SUMMARIZED

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BELOW.

RESOURCES	UTILIZATION
EXPORTS	252.6
	IMPORTS
	GOVERNMENT 230.4
	PRIVATE SECTOR 186.4
INVISIBLES	95.4
	INVISIBLES 90.6

CAPITAL ACCOUNT

DRAWING & EXPECTED

CREDIT FACILITIES	276.7	DEBT REPAYMENT	81.7
TOTAL	624.7	TOTAL	588.7

KEY VARIABLE WILL BE OBTAINING CAPITAL ACCOUNT DRAWINGS AND CREDIT FACILITIES TALLING LS276.7. PORTIONS OF THAT AMOUNT HAVE BEEN COMMITTED BY BILATERAL DONORS AND MULTILATERAL INSTITUTIONS. WE SUSPECT, HOWEVER, THAT A LARGE PORTION MUST STILL BE RAISED. PROPOSALS TO IMPROVE EXTERNAL BALANCE INCLUDE REVISION OF EXPORT TAXES TO STRENGTHEN THEIR COMPETITIVE POSITION(AN EXEMPTION OF TAXES ON SESAME EXPORTS HAS RECENTLY BEEN APPROVED), CREATION OF FREE TRADE ZONE IN PORT SUDAN, AND ADDITIONAL OVERSEAS BANKING FACILITIES TO ATTRACT THE EARNINGS OF SUDANESE WORKERS RESIDING ABROAD.

6. COMMENT: THE GOVERNMENT IS STARTING OFF ON THE RIGHT FOOT WITH ITS FY78-79 BUDGET. ONE CANNOT FAULT THE PRIORITIES IN EITHER THE GENERAL OR DEVELOPMENT BUDGET. AGGREGATE SPENDING LEVELS PROVIDE FOR MODEST EXPANSION AND A REDUCTION IN CENTRAL GOVERNMENT BORROWING. DEVELOPMENT SUFFERS MOST SEVERELY, BUT FROM OUR POINT OF VIEW, THE GOVERNMENT WILL GET MORE MILEAGE OUT OF THE LIMITED RESOURCES THROUGH ITS DECISION TO CONCENTRATE ON EXISTING AND NEARLY COMPLETED PROJECTS. WE CAN EXPECT CONSIDERABLE OPPOSITION TO REDUCTIONS LIMITED OFFICIAL USE

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IN THE DEVELOPMENTAL BUDGET FROM THE MINISTRY OF NATIONAL PLANNING. THE MINFIN'S ABILITY TO HOLD THE LINE ON THIS ISSUE, AND TO RAISE REQUIRED EXTERNAL RESOURCES ARE KEY VARIABLES IN MOVE TOWARD ECONOMIC STABILIZATION. BERGUS

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